


ROLLOUT SCHEDULE

| Location | Date |
|------------------------------------|------------------|
| Grayson County | October 1, 2005 |
| Collin County | February 1, 2006 |
| West Texas Panhandle Areas 3 and 4 | Summer 2006 |
| Remainder of Texas | TBA |

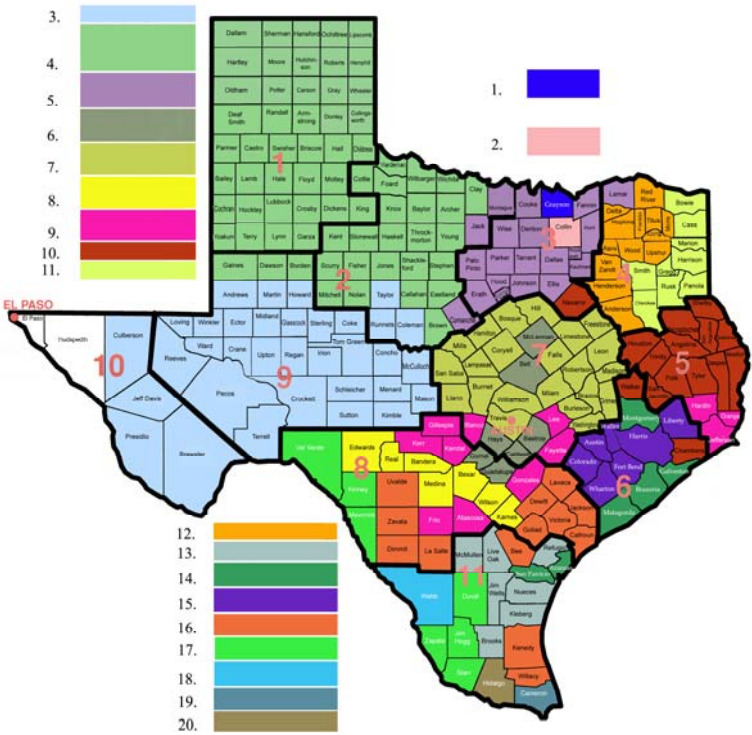
Did you know, that the following WIC EBT Electronic Cash Register systems are certified by the State of Texas?

| System | Installer |
|-----------------|-----------|
| IBM SA, IBM ACE | Malloy’s |
| ICL Fujitsu | CRS |
| JPMA | JPMA |



MTG Management Consultants, L.L.C., 2005

EBT ROLLOUT IN TEXAS



WIC PLANS EBT SYSTEM STATEWIDE ROLLOUT

Ms. Cori Ramsey

The Texas Department of State Health Services (DSHS) has announced it will expand its Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Electronic Benefits Transfer (EBT) pilot in October 2005.

DSHS began its smart card pilot for WIC in El Paso and Hudspeth Counties on June 1, 2004. Plans are now under way to expand the system pilot beyond the El Paso service area and introduce smart cards in clinics within two north Texas counties by spring 2006.

The U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) has approved DSHS's expansion of the off-line WIC EBT system into Grayson County on October 1, 2005. After a 3-month hold to avoid implementation during grocers' busiest season – the holidays, the system will then be expanded into clinics and stores in Collin County on February 1, 2006.

Following DSHS's receipt of final project and funding approvals for statewide expansion and rollout from FNS, Texas WIC will proceed by converting far west Texas and the panhandle area. While the exact timeline for converting these areas remains unknown, WIC has released its overall strategy and order of succession for converting clinics from paper to EBT.

WIC-authorized vendors statewide are readying for the change from paper vouchers to smart cards. A series of Grocer Expos will spotlight those commercial electronic cash register (ECR) systems that have been modified to accept smart cards at the point-of-sale (POS) terminal, initiate WIC EBT transactions, and transfer claim files to the State electronically via dial-up or the Internet.

With the backing of the grocer industry, Texas will be the first state to implement a totally commercial off-line WIC EBT solution. "Texas designed and developed a stand-beside, WIC-only grocer system that we implemented in El Paso. Of the 85 grocers authorized to transact WIC food sales, 53 operated the state stand-beside system," said Mr. Mike Montgomery, Texas WIC Director. "It did what it was supposed to, but one of the many lessons learned from the El Paso pilot was that government is ill-equipped to provide the types and level of support needed by grocers

to operate and maintain WIC-enabled ECR software and systems." Mr. Montgomery credits the grocer industry with having generated interest in WIC EBT among leading ECR software manufacturers and systems integrators.

For grocers not familiar with the off-line WIC EBT system design and operations, Texas WIC will host a series of regional WIC EBT grocer system expos around the State. The purpose of these meetings is to spotlight the commercial ECR systems that have been "certified" by USDA FNS as meeting national WIC EBT system standards and by the Texas and New Mexico WIC programs for use in their states. Grocers in attendance will meet with software and ECR representatives, view and participate in product demonstrations, discuss store business and site installation needs, and, following selection of a WIC-enabled ECR product, negotiate purchase terms and conditions and an installation and conversion schedule.

TEXAS WIC ANNOUNCES EBT SYSTEM PILOT EXPANSION

Ms. Cori Ramsey

The Texas Department of State Health Services (DSHS) announced in June that the Texas Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) will expand its Electronic Benefits Transfer (EBT) System Pilot beyond El Paso in October 2005. In preparation, WIC officials met with Collin County and Grayson County grocers on June 28 and 29, respectively, to provide them with information about the Texas WIC EBT system design and operations, implementation timeline, and resources available to grocers to assist in their transition from paper vouchers to paperless food delivery.

Collin County

Collin County grocers met June 28, 2005, to learn about plans to begin issuing the WIC EBT smart card pilot as early as February 2006. Collin County has 61 WIC-certified stores. Fifty-seven of these stores are large supermarkets and regional chain stores expected to upgrade their current electronic cash register (ECR) software and change out/upgrade existing PIN pad or terminal devices in order to fully integrate off-line WIC EBT functionality within their existing ECR and point-of-sale (POS) systems. The remaining four stores are expected to select, purchase, and install a commercial "small grocer solution" certified by the state and federal governments to transact WIC food sales.

Mr. Ray Krzesniak, Unit Manager, Food Issuance and Redemption Services (FIRS) began the meeting with a brief history of the Texas WIC Program, including client, clinic, and food redemption statistics; an overview of Texas WIC EBT system design and operations; and a summary of the El Paso WIC EBT pilot experience, including lessons learned and changes to WIC EBT system design and policy. He presented the rationale used by WIC in determining the maximum number of lanes to be reimbursed, available WIC funding, and the reimbursement process. His overview also included information about new WIC policies (e.g., grocer training, ECR systems certification) and the proposed statewide rollout and timeline.

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October WIC Grocer/Vendor Training
WIC EBT Policy and Procedure Training
La Quinta
1820 North Central Expressway
Plano, Texas 75074

- Session 1 – Tuesday, October 18, 20059 to 11 a.m.
- Session 2 – Tuesday, October 18, 20051 to 3 p.m.
- Session 3 – Wednesday, October 19, 20059 to 11 a.m.
- Session 4 – Wednesday, October 19, 20059 to 11 a.m.

Resources of Interest:

The federal WIC site: <http://www.fns.usda.gov/wic/>, The DSHS WIC EBT site: <http://www.dshs.state.tx.us/wichd/ebt/ebt1.shtm>

TEXAS WIC ANNOUNCES EBT SYSTEM PILOT EXPANSION *(continued)*

Mr. Krzesniak went on to explain the difference between the two types of commercial grocer systems capable of transacting WIC food sales – fully integrated and commercial small grocer solutions, installed as either replacement or stand-beside/stand-alone systems. Fully integrated ECR systems utilize existing scanner, scale, and POS hardware, with an added smart card-enabled PIN pad device or terminal to initiate WIC EBT transactions and transmit WIC claims to the State electronically. Upgrades are available to grocers at no cost if their ECR systems run IBM-ACE, IBM-SA, ICL-FUJITSU, NCR Corporation, or ACR software. In contrast, some grocers will elect a commercial small grocer solution characterized by reduced functionality and/or scaled-down lane equipage and support (i.e., one to four lanes). The small grocer solution will be installed to either replace the store's existing ECR, be integrated partially with the existing ECR, stand beside the existing store ECR system, or replace a manual cash register or paper-based sales tracking system.

Mr. Asad Salahuddin of The Peachtree Group (TPG)/HIRE Productivity Inc. presented information about integrated systems software availability and about WIC-certified commercial small grocer ECR system solutions and vendor pricing. In addition, he detailed the “critical path” for Collin County grocer readiness, providing attendees with a step-by-step checklist with corresponding “completed by” dates. In order to avoid ECR system modifications/installations and certification activities during November and December, Collin County grocers were urged by DSHS to have their systems installed, operational, and certified on or before October 1, 2005.

Collin County WIC clinics will no longer issue paper WIC vouchers effective February 1, 2006. Instead, WIC participants will be given smart cards with food benefits issued for one or more months to all eligible individuals within a single family loaded onto a single card. Without a WIC-certified ECR system, a store will be unable to redeem WIC benefits, except for paper vouchers presented by WIC families moving to Collin County from other areas of the State.

WIC officials responded to grocers’ questions, and then representatives of each WIC-certified commercial system – integrated and small grocer solution – were introduced. Collin County grocers remained after the meeting concluded to talk with systems vendors.

Grayson County

The Grayson County grocer meeting was also a huge success, with 100 percent of WIC-authorized grocers in attendance. In the morning, mostly small-to-medium-size grocers met with WIC officials to learn about WIC-certified commercial small grocer ECR system solutions designed primarily for stores being reimbursed for one to four WIC-equipped lanes. In the afternoon, corporate office representatives and managers of mostly supermarkets and other large stores met to learn how and when their ECR systems could be upgraded to integrate WIC EBT functionality, and to learn of the reimbursement strategy and amount for integrated store lane coverage.

Texas WIC anticipates 7 of the 14 WIC-authorized outlets operating in Grayson County will opt to install a commercial small grocer solution that either replaces a store's manual or paper-based sales tracking system, or it replaces, is not integrated with, or is partially integrated with the store's existing ECR system. The remaining seven stores are expected to implement a fully integrated solution, modifying their existing ECR systems to integrate WIC EBT functionality and replacing/installing smart card-capable acceptor (terminal) and PIN pad devices at the POS terminal.

Grayson County WIC clinics will begin issuing smart cards instead of paper WIC vouchers October 1, 2005. The deadline for all Grayson County grocers to have their systems installed, operating, and state-certified for WIC EBT operations is September 1, 2005.

EL PASO GROCERS MAKE THE SWITCH

Texas Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) -authorized grocers participating in the Texas WIC Electronic Benefits Transfer (EBT) System Pilot met with WIC officials July 19, 2005, at the El Paso Convention & Performing Arts Center. Despite the heat, more than 87 percent of pilot grocers attended the meeting, along with several New Mexico grocers currently participating in the New Mexico WIC EBT pilot in Truth or Consequences, Hatch, and Arrey.

The meeting began with an overview of the Texas WIC EBT System Pilot. Ms. Penny Tisdale of The Peachtree Group (TPG)/MTG Management Consultants, L.L.C., outlined the major accomplishments and lessons learned from El Paso grocer, client, and clinic staff interviews; WIC EBT food redemptions, sales transactions, claims, and payments data; and WIC EBT project and financial management reports. Emphasizing the bottom line for all involved, the Texas-New Mexico WIC EBT System Pilot were reported to be a resounding success.

Most importantly, the Texas WIC EBT system is the first off-line, smart card food delivery system of its kind (i.e., affordable).

Some of the more interesting statistics from the pilot evaluation included:

- Increased WIC participation.
- Enhanced level of detail (data) and accuracy – WIC food redemptions.
- Increased accuracy – claims creation and submittal.
- Enhanced timeliness – claims receipt, processing, and settlement.
- Reduced “time in lane” by WIC participants.
- Increased self-esteem (positivity) by WIC participants.

In contrast to other states’ WIC EBT pilot experiences, Texas observed no significant drop in overall WIC food sales during the first 3 months of El Paso pilot operations. Texas did see an expected change in food redemption patterns, however. Prior to EBT, WIC benefits were issued on a rolling, day-by-day eligibility and issuance cycle. Conversion to EBT was accompanied by a change to a calendar-month eligibility and issuance cycle, where benefits issued are available from the first to the last day of a calendar month.

Mr. Hank Lundberg, Department of State Health Services (DSHS)/EBT Development Manager, presented a list of changes in WIC vendor policies and procedures stemming from the analysis of pilot results and outlined the strategy and schedule for expanding the WIC EBT system beyond El Paso to statewide. Small grocers and others using the state-designed and -developed stand-beside grocer system software (kWICpos) reacted positively to Mr. Lundberg's announcement that Texas WIC would reimburse El Paso grocers upon their selection and installation of a WIC-certified commercial electronic cash register (ECR) system with 3 years of full support.

The target date for retrofitting all El Paso stores with their selected commercial system was announced as October 1, 2005, since DSHS's contract with Sagem Morpho, Inc., to provide retail support expires in November 2005. Continuing, he described Texas and New Mexico WIC requirements for ECR systems design, functionality, and performance as well as the unified efforts with the U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) to establish a uniform policy for commercial ECR systems certification. In closing, Mr. Lundberg outlined Texas WIC's policy and formula for grocer reimbursement, also approved by FNS. Stores in El Paso will be reimbursed based on pilot lane equipage; stores outside the El Paso pilot area will be reimbursed for one to four lanes, based on annualized monthly WIC food sales. The formula will mirror that required by FNS for the Food Stamp Program.

Progress to Date Numbers: In El Paso: **45,400** cards issued, **66%**, or **54** of the **82**, stores in the pilot are converted, certified and fully operational as of October 1, 2005; State anticipates that the remainder will be converted soon, **5** Certified and Operational Commercial ECR Systems, **99** Commercial ECR Systems in development

After lunch, El Paso and New Mexico grocers met briefly with Mr. Asad Salahuddin of TPG/HIRE Productivity Inc., who reiterated the reasons for Texas WIC to convert small grocers to a commercial system. He cited the many benefits available to grocers and to all stakeholders, including the State, and went on to explain, in detail, Texas WIC's kWICpos software and system replacement and reimbursement policies for El Paso. Finally, Mr. Salahuddin introduced each of the commercial systems on display at the convention center, the authorized sales representatives in attendance, and the tiered pricing for each:

- ICL-FUJITSU – Cash Register Services, Inc. (CRS), Lubbock, Texas.
- IBM-ACE – Malloy's Cash Register Company, Houston, Texas.
- JPMA, Inc. – JPMA, Lakewood, Colorado.

El Paso and New Mexico grocers were given the opportunity to meet with each of these vendors, and view and/or operate each of the WIC-certified ECR systems on display. Mr. David Fuller of CRS said, “We're excited about converting El Paso stores to a new ICL-FUJITSU system. The grocers have accepted the WIC program's change without incident. Everybody seems happy with the change.”

Large grocers, like Mr. Mark Bandy of Big 8 Food Stores, expressed little concern about the announcement because they are already running integrated systems. The conversion will not impact their stores. Large grocer representatives expressed their appreciation for being told of the results of the WIC EBT pilot evaluation. In addition, more than one expressed being glad that small grocers would continue to benefit from Texas WIC's conversion to EBT, and that WIC's decision to move to a totally commercial environment was a good one. All grocers will have commercial systems installed and certified prior to November 2005.

LEARNING FROM THE EL PASO PILOT

Ms. Sydney Townsend

Earlier this summer, a major milestone passed quietly, without problem or fanfare. The Texas Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Electronic Benefits Transfer (EBT) System Pilot reached its 1-year anniversary in El Paso on June 1, 2005. By far the largest WIC EBT system in the country, the Texas WIC EBT system has operated successfully, without interruption, for more than 12 consecutive months. During that time, it has supported paperless food issuance in 18 local WIC clinics to more than 45,000 WIC participants, and supported paperless food redemptions, paperless claims submittals, and electronic (paperless) settlement to 85 WIC-authorized grocers.

In accordance with federal regulations and policy, Texas WIC began its evaluation of the El Paso system pilot in early 2004. In so doing, Texas became one of the first states subject to the new U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) guidelines, “WIC EBT National Evaluation Model (April 2004).” Texas WIC expanded the scope of its pilot evaluation, going beyond FNS's primarily financial review to encompass a qualitative (pre/post) review of clinic and state office services and the impact of WIC EBT on clinic patient flow and client and grocer (stakeholder) satisfaction. The final report includes a list of lessons learned useful to WIC in making decisions for post-pilot expansion, but also for use by future WIC EBT states when writing effective policies and procedures for managing conversion and for transitioning from pilot to ongoing WIC EBT system operations.

The most important lesson learned in the Texas WIC pilot involved stakeholder satisfaction. Not unexpectedly, WIC participants said they were very pleased with the EBT card and would not want to return to paper vouchers. The most overwhelming report, however, came from grocers. WIC-authorized grocers operating integrated electronic cash register (ECR) systems were highly satisfied, reporting overall pilot success at a significantly higher rate than grocers operating stand-beside systems. Integrated store owners and managers cite ECR system design features, system performance and provider support as reasons for high satisfaction.

Will the State take back the EBT equipment currently used by El Paso stores for the WIC EBT pilot?

No, the hardware belongs to the grocer. Only the kWICpos software installed on the PC controller belongs to the State. The State will uninstall the kWICpos software at the time the commercial system is certified. The deadline for a grocer to have its commercial system uninstalled and certified is November 1, 2005. The kWICpos software will be uninstalled at the time of certification or on November 30, 2005, whichever is earlier.

In a comment by Mr. Phil Swain, EBT Coordinator, FNS Southwest Region Office, “This is particularly ‘good news’ for Texas, FNS, and WIC agencies nationally. Texas and FNS have invested heavily in WIC EBT integration, reimbursing the costs incurred by Texas's largest-volume WIC stores to integrate WIC EBT functionality into their core ECR systems software and by providing staff time and nonfinancial support to individual retailers and commercial ECR system developers and integrators to do the same for other core ECR systems software.”

Based on feedback from its grocer and commercial ECR systems communities, by the time Texas expands its WIC EBT system statewide it may have underwritten the costs to modify and obtain FNS certification of commercial ECR system software and integrated POS systems supporting upwards of three-fourths of the nation's WIC-authorized grocery and pharmacy lanes.

To date, Texas WIC has been or is actively involved in integrating and/or certifying WIC functionality in the following ECR systems: Kroger (IBM-ACE), Albertson's (IBM-SA), Lowe's Pay & Save (ICL-FUJITSU), Brookshire Grocery (NCR), H-E-B (ACR), Wal-Mart, United (Sweda). In addition, Texas is or has been involved in providing support to a number of commercial developers interested in integrating WIC EBT functionality into their ECR software and systems: JPMA, Inc., OPENFIELD Solutions, Toshiba, Casio, Inc., VeriFone Ruby SuperSystem, and others.

“We like to think that we've enabled other states to follow behind us, to take advantage of what we have accomplished because of our size,” adds Mr. Mike Montgomery, Texas WIC Director. “Until now, the cost to implement an off-line WIC EBT system was prohibitive. The costs to modify its clinic and state host systems and to install, operate, and support a stand-beside WIC EBT system in every WIC-authorized store was something only a very large state like Texas could pull off. In the future, a WIC authority will only have to consider a portion of those costs, the costs to convert its clinic and host systems from paper to EBT and, if it follows the Texas model, the cost to replace/upgrade grocer terminals from magnetic stripe only to dual technology.”

By the time its WIC EBT system is expanded statewide, Texas expects the overwhelming majority of store lanes to be EBT-equipped, supported by fully integrated ECR systems or by add-ons to commercial small grocer systems. Texas pilot evaluation results show the highest return on investment for grocers and for the government to be a fully integrated ECR system, with benefits exceeding those of both commercial and traditional stand-beside systems. In Texas, the term “traditional” refers to a single-tender (WIC-only), state-owned or -leased and fully supported grocer system, similar to that deployed in Wyoming and Ohio, and the term “commercial” refers to either a single- or multiple-tender ECR system, grocer-owned or -leased, with full hardware and software support provided by a commercial ECR systems developer/integrator. In the commercial model, the State negotiates an acceptable basis for reimbursement to WIC grocers for part or all of the system's initial purchase and full life cycle hardware/software support.

Texas WIC has presented its plan to FNS to implement a 100 percent commercial grocer solution as it expands statewide. While FNS considers Texas's request for statewide expansion approval, both Texas WIC and grocers working in the El Paso pilot and the post-pilot expansion areas of Grayson and Collin Counties will convert to a total commercial software and systems support environment. If lessons learned

hold true, they have a lot to look forward to!